

## Corporate Social Responsibility by SME's in India

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**Abstract:** Companies in India have been the target of those perturbed by this uneven development and as a result, their contributions to society are under severe scrutiny. SME's [SME:- Small & Medium Enterprises] serve independently and also as ancillary to larger units and help generate employment and industrialize the rural and backward region.

By requiring companies, with a minimum net profit of 5 Crore INR, to spend on CSR [Corporate Social Responsibility] activities, the Companies Act, 2013 is likely to bring in many SMEs into the CSR fold. This will usher in a fresh set of challenges to a sector that is increasingly being asked by its B2B [Business to Business] customers to comply with environmental and social standards, while remaining competitive in terms of price and quality. Keeping above point in view this Research article focuses on what small and medium enterprises of India are doing collectively for CSR considering the roots of CSR lie in philanthropic activities (such as donations, charity, relief work, etc.) of corporations, globally, the concept of CSR has evolved and now encompasses all related concepts such as triple bottom line, corporate citizenship, philanthropy, strategic philanthropy, shared value, corporate sustainability and business responsibility.

**Key Words:** CSR, Development, Companies, Policy, Community.

### What is CSR?:

The EC1 defines CSR as “the responsibility of enterprises for their impacts on society”. To completely meet their social responsibility, enterprises “should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders. According to the UNIDO3, “Corporate social responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.

From the above definitions, it is clear that:

1. The CSR approach is holistic and integrated with the core business strategy for addressing social and environmental impacts of businesses.
2. CSR needs to address the well-being of all stakeholders and not just the company's shareholders.

### CSR in India:

CSR in India has traditionally been seen as a philanthropic activity. And in keeping with the Indian tradition, it was an activity that was performed but not deliberated. As a result, there is limited documentation on specific activities related to this concept. However, what was clearly evident that much of this had a national

character encapsulated within it, whether it was endowing institutions to actively participating in India's freedom movement, and embedded in the idea of trusteeship.

### **CSR and sustainability:**

Sustainability (corporate sustainability) is derived from the concept of sustainable development which is defined by the Brundtland Commission as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.

CSR in India tends to focus on what is done with profits after they are made. On the other hand, sustainability is about factoring the social and environmental impacts of conducting business, that is, how profits are made. Hence, much of the Indian practice of CSR is an important component of sustainability or responsible business, which is a larger idea, a fact that is evident from various sustainability frameworks.

The new guidelines, which have replaced two existing separate guidelines on CSR and sustainable development, issued in 2010 and 2011 respectively, mentions the following....

Since corporate social responsibility and sustainability are so closely entwined, it can be said that corporate social responsibility and sustainability is a company's commitment to its stakeholders to conduct business in an economically, socially and environmentally sustainable manner that is transparent and ethical.

### **Why is the CSR clause of the new Companies Act, 2013 so critical for SMEs?**

By requiring companies, with a minimum net profit of 5 crore INR, to spend on CSR activities, the Companies Act, 2013 is likely to bring in many SMEs into the CSR fold. This will usher in a fresh set of challenges to a sector that is increasingly being asked by its B2B customers to comply with environmental and social standards, while remaining competitive in terms of price and quality. Thus, SMEs will have to quickly learn to be compliant with these diverse set of requirements and it is hoped that this handbook will facilitate their ability to comply with the CSR clause of the Companies Act.

### **The company act 2013:**

In India, the concept of CSR is governed by clause 135 of the Companies Act, 2013, which was passed by both Houses of the Parliament, and had received the assent of the President of India on 29 August 2013. The Act encourages companies to spend at least 2% of their average net profit in the previous three years on CSR activities. The ministry's draft rules, that have been put up for public comment, define net profit as the profit before tax as per the books of accounts, excluding profits arising from branches outside India.

List of activities under Schedule:

1. Eradication of extreme hunger and poverty.
2. Promotion of education.
3. Gender equity and women empowerment.
4. Contribution to Prime Minister's relief fund and other such state and central fund.
5. Social business project.
6. Environmental sustainability.

### **The company can implement its CSR activities through the following methods:**

[A] Directly on its own:-

[1] Through its own non-profit foundation set- up so as to facilitate this Initiative.

[2] Through independently registered non-profit organizations that have a record of at least three years in similar such related activities.

[3] Collaborating or pooling their resources with other companies.

### **Business responsibility reporting:**

The other reporting requirement mandated by the government of India, including CSR is by the SEBI which issued a circular on 13 August 2012 mandating the top 100 listed companies to report their ESG initiatives. These are to be reported in the form of a BRR as a part of the annual report. SEBI has provided a template for filing the BRR. Business responsibility reporting is in line with the NVG published by the Ministry of Corporate Affairs in July 2011. Provisions have also been made in the listing agreement to incorporate the submission of BRR by the relevant companies.

### **CSR - Planning and Strategizing:**

The first step towards formalizing CSR projects in a corporate structure is the constitution of a CSR committee as per the specifications in the Companies Act, 2013, clause 135. Clause 135 of the Companies Act, 2013 requires a CSR committee to be constituted by the board of directors. They will be responsible for preparing a detailed plan of the CSR activities including, decisions regarding the expenditure, the type of activities to be undertaken, roles and responsibilities of the concerned individuals and a monitoring and reporting mechanism.

This is an excellent starting point for any company new to CSR. In case a company already practices CSR, this committee should be set up at the earliest so that it can guide the alignment of the company's activities with the requirements of the Act.

### **What are SMEs:**

Small and medium enterprises (SMEs) significantly contribute towards India's economic growth. These serve independently and also as ancillary to larger units and help generate employment and industrialize the rural and backward regions of India. They employ nearly 40% of India's workforce and contribute around 45% to India's manufacturing output<sup>20</sup>.

### **How can SMEs contribute to CSR initiatives?**

This section analyses the option of undertaking collaborative CSR activities by SMEs. This collaboration can also be used by other companies to maximize the impact of their CSR initiatives while reducing the operational costs for fund management.

What do they do?

The business activities of SMEs are performed in proximity to the locals. This enables them to be aware of community needs, manage expectations and develop CSR programmes appropriately.

Now that the CSR clause in the Companies Act, 2013 covers companies that have a net profit of five crore INR and above, it is expected that while micro-enterprises will not qualify, many small and medium enterprises (SMEs) will.

SMEs are being treated separately in this handbook because of their distinct features. The CSR activities of these enterprises are driven by the personal interests of promoters who hold a significant financial stake in the business. They tend to be in clusters and engaged in similar business activities. While the quantum of revenue available for CSR with individual SMEs is expected to be small, all eligible companies in a specific

geographical cluster, who single handed as well as collectively impact the same community, can pool their resources to create a sizeable CSR fund.

### **The process for an SME:**

The first step involved in collaborating is to create an alliance of interested SMEs. This may be initiated by the cluster association in case of large-scale participation from the cluster. Alternatively, it can be initiated by an individual SME in case there are only a few units interested in undertaking CSR activities in collaboration. Involvement of the cluster association will ensure that the local priorities are given due consideration while developing CSR programmers. In sufficient number of SMEs in a cluster do not wish to participate or are not required under the Companies.

The CSR policy of individual SMEs should be designed to allow for flexibility in case of a collaborative effort to undertake CSR. This implies that the policy, over and above the guidelines mentioned in the section “Step one: Develop CSR strategy and policy”, should allow the following:- from Companies Act, 2013, beneficiary groups and geographies as per the priorities of the entire association.

- Support to initiate CSR programmers to the extent possible, in case the association is abandoned.

The next steps involved in the due diligence of implementation or the concept development partner are:-

- Project development.
- Operational sing institutional mechanism.
- Contracting.
- Budgeting and payments.
- Monitoring.
- Impact measurement.

### **Conclusion:**

Political sociologists became interested in CSR in the context of theories of globalization, neoliberals and late capitalism. Some sociologists viewed CSR as a form of capitalist legitimacy and in particular point out that what began as a social movement against uninhibited corporate power was transformed by corporation in to a ‘business modal’ and a ‘risk management ‘device, often with questionable results.

CSR is titled to aid an organization’s mission as well as a guide to what the company stand for to its consumers business ethics is the part of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment. ISO:- 26000 is the recognized international standard for CSR. Public sector organizations [the united nations for example] adhere to the triple bottom line [TBL]. It is widely accepted that CSR adheres to similar principles, but with no formal act of legislation.

The notion is now extended beyond purely commercial,[example to universities.]

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